

MARKET CONDUCT EXAMINATION

Arcadian Health Plan, Inc.

**1330 North Washington Street, Suite 3500
Spokane, WA 99201**

July 1, 2004 – December 31, 2005



**Order No. G 06-54
Arcadian Health Plan, Inc.
Exhibit A**

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The Honorable Mike Kreidler
Washington State Insurance Commissioner
302 14th Avenue SW
P.O. Box 40258
Olympia, Washington 98504-0258

Dear Commissioner Kreidler:

Pursuant to your instructions and in compliance with the statutory requirements of RCW 48.44.145 and procedures promulgated by the National Association of Insurance Commissioners and the Office of the Insurance Commissioner (OIC), an examination of the market conduct affairs has been performed of:

Arcadian Health Plan, Inc., NAIC #12151
1330 North Washington Street, Suite 3500
Spokane, WA 99201

In this report, Arcadian Health Plan, Inc. is referred to as AHP or as the Company.

This report is respectfully submitted.

CHIEF EXAMINER'S REPORT CERTIFICATION and ACKNOWLEDGEMENTS

This examination was conducted in accordance with Office of Insurance Commissioner and National Association of Insurance Commissioners market conduct examination procedures. Sally Carpenter, AIE, and Sandy Ray, AIE, CPCU of the Washington State Office of Insurance Commissioner performed this examination and participated in the preparation of this report.

The examiners wish to express appreciation for the courtesy extended by the personnel of Arcadian Health Plan, Inc. during the course of this market conduct examination.

I certify that this document is the report of the examination, that I have reviewed this report in conjunction with pertinent examination work papers, that this report meets the provisions for such reports prescribed by the Office of Insurance Commissioner and that this report is true and correct to the best of my knowledge and belief.



Leslie A. Krier, AIE, FLMI
Chief Market Conduct Examiner
Office of the Insurance Commissioner
State of Washington

FOREWORD

This examination commenced on December 21, 2005. Several discussions concerning federal pre-emption of state insurance regulation ensued. On March 29, 2006 the Office of the Insurance Commissioner (OIC) received a letter from the Centers for Medicare and Medicaid (CMS) asking that the examination be suspended pending a review of the jurisdictional issues.

Because the company refused to provide information to the examiners when the company felt the requested documents were outside OIC jurisdiction, and because OIC had no viable alternative by which to challenge the preemption claim or to use alternative examination procedures, the OIC made the decision to close the examination and tender this report. This decision was based on the premise that if a company does not allow access to all records, the OIC is not able to conduct a proper and adequate market conduct examination to show that a licensee is operating both safely and in compliance with state laws.

Please note that throughout this report, RCW refers to the Revised Code of Washington, and WAC refers to the Washington Administrative Code.

COMPANY OPERATIONS AND MANAGEMENT

Company History

Arcadian Health Plan, Inc. (AHP) was formed in April 2004 as a Washington corporation. AHP received its Washington Certificate of Registration as a domestic Health Care Service Contractor in July 2004. As a domestic health care service contractor, AHP is subject to Title 48 RCW - the Washington Insurance Code.

At this time, the only product offered by AHP is a Medicare Advantage product to Medicare eligible individuals. AHP does not provide any product for commercial or other non-Medicare eligible enrollees. The Company operates in Spokane, Yakima, Benton and Franklin counties.

AHP is a wholly owned subsidiary of Arcadian Management Services, Inc. (AMS). AMS is a for-profit Delaware corporation founded in October 1996 and is a full-service health care management company based in Oakland, California.

Company Management & Operations

Arcadian Health Plan, Inc. board of directors consists of the following:

Name	Company Affiliation	Term Began
John H. Austin	CEO	4/6/2004
Nancy Freeman	President	4/6/2004
Kenneth Zimmerman	CFO	4/6/2004
Chase Milbrandt	Vice President, Business Development	4/6/2004
Cheryl Perkins	Senior Vice President of business Process Management	4/6/2004

The Company bylaws state that the initial members of the board of directors shall be set forth in the Corporation's articles of incorporation. Thereafter, the bylaws require that the directors of the Corporation shall be elected by the Corporation's shareholders at each annual meeting, to be held on the last Monday of every January, or at a special meeting of the shareholders called for such purpose. Even though requested, Arcadian Health Plan did not provide evidence of compliance until after completion of field work and after a preliminary draft report was provided to Arcadian Health Plan.

The Company provided a brief written history for the examiners to review in which it references its program as an HMO. The Company also provided a copy of the Arcadian Health Plan, Inc. Insurance Producer Agreement in which the Company's plan is referenced as the Arcadian Health Plan HMO. Under RCW 48.44.015(1) the Company is licensed as a Health Care Service Contractor not an HMO. RCW 48.46.027 prohibits a person from acting as or holding himself or herself out as an HMO without being registered by the Commissioner as an HMO.

The Company's Bylaws were originally adopted April 9, 2004 and filed with the OIC. An amendment to the Bylaws was adopted October 28, 2004. The Company did not file this amendment with the OIC as required by RCW 48.44.013. The annual statement general interrogatories filed by the Company for both 2004 and 2005 answer no to the question "has any change been made during the year of this statement in the charter, bylaws, articles of incorporations or deed of settlement" of the reporting entity.

Because this examination was closed due to the Company's claim of federal preemption of OIC authority and its refusal to provide its records for examination, as addressed on page 5 of this report, the examiners were unable to verify that the company is operating within the territory of operations filed with the OIC.

ADVERTISING

In response to a request for its advertising manual the Company has advised the examination staff that it defers to citations in the Medicare Managed Care Manual. No Company specific materials or procedures were provided for review.

See the discussion on page 5 concerning issues pertaining to AHP's claim of federal preemption of state regulation of this entity, and AHP's refusal to provide its records for examination.

COMPLAINT HANDLING

In response to a request for its complaint handling procedures the Company stated that it follows the procedures found in the Medicare Managed Care Manual. No Company specific materials or procedures were provided for review.

See the discussion on page 5 concerning issues pertaining to AHP's claim of federal preemption of state regulation of this entity, and AHP's refusal to provide its records for examination.

CLAIMS

The Company has delegated claims management, including claim processing, adjudication, payment, reporting and audits to Arcadian Management Services (AMS) via an Administrative Services Agreement.

In response to a request for its claim procedures, the Company advised the examination staff that it follows the procedures found in the Medicare Managed Care Manual. No Company specific materials or procedures were provided for review. The Company did not provide the claims database requested, so the examiners were not able to pull a claims sample to review.

See the discussion on page 5 concerning issues pertaining to AHP's claim of federal preemption of state regulation of this entity, and AHP's refusal to provide its records for examination.

AGENT ACTIVITY

The Company generates leads in several ways, including direct mail, print advertising, television and community activities.

The Company's internal sales staff has produced approximately 98% of Washington sales. The agent and broker sales force has produced 37 enrollments versus 3118 enrollments generated by the internal sales force.

The Company provided the examiners a list of currently appointed agents as part of the initial review materials. In order to determine if agents are appointed prior to soliciting business for the Company, it is necessary to compare licensing records to application dates. As the Company did not provide applications for examiner review, the examiners were not able to test these standards.

See the discussion on page 5 concerning issues pertaining to AHP's claim of federal preemption of state regulation of this entity, and AHP's refusal to provide its records for examination.

FORM FILING

See the discussion on page 5 concerning issues pertaining to AHP's claim of federal preemption of state regulation of this entity and AHP's refusal to provide its records for examination.

PROVIDER ACTIVITY

In response to a request for provider contracting procedures, the Company stated that it follows the procedures found in the Medicare Managed Care Manual. No Company specific materials or procedures were provided for review. As a result, the examiners were not able to review any aspects of provider activities.

See the discussion on page 5 concerning issues pertaining to AHP's claim of federal preemption of state regulation of this entity and AHP's refusal to provide its records for examination.

INSTRUCTIONS

	INSTRUCTIONS	PAGE #
1	The Company is instructed to refrain from referencing itself as an HMO as it is only licensed to operate as an HCSC in Washington. Reference: RCW 48.44.015(1); RCW 48.46.027	6
2	The Company is instructed to report to the OIC any changes to its Bylaws. Reference: RCW 48.44.013	7

ARCADIAN

HEALTH PLAN

June 16, 2006

James T. Odiorne, CPA, JD
Deputy Insurance Commissioner
Company Supervision Division
Washington Office of Insurance Commissioner
5000 Capitol Boulevard
Tumwater, WA 98501

Subject: Arcadian Health Plan, Inc. Market Conduct Examination

Dear Mr. Odiorne:

Arcadian Health Plan, Inc. (AHP) is in receipt of your letter dated May 5, 2006 containing the draft Market Conduct Examination report. In response to that letter, AHP is providing clarification as well as response to the proposed Instructions.

Clarification regarding comments in the Foreword

On February 28, 2006, AHP met via telephone with Leslie Krier and Nancy Campbell of the Washington Office of Insurance Commissioner to discuss the scope of the Market Conduct Examination. In that meeting, as documented by a letter to Ms. Krier dated March 1, 2006, the parties agreed on the documentation AHP was required to provide to the Washington OIC. AHP believes it complied with the request for documentation as stated in the March 1 letter and has provided additional documentation within the scope of the State of Washington's licensing requirements for operation of a Health Care Service Contractor which is engaged in providing only Medicare services. During AHP's licensing process with the State of Washington, the State acknowledged the Federal pre-emption of several aspects of AHP's operations as stated in the Medicare Managed Care Manual, Chapter 10, section 10 and 42 CFR422.402.

Clarification regarding comments in Company Management and Operations

The second paragraph, third and fourth sentences state "Under RCW 48.44.015(1) the Company is licensed as a Health Care Services Contractor not an HMO. RCW 48.46.027 prohibits a person from acting as or holding himself or herself out as an HMO without being registered by the Commissioner as an HMO." The document referenced by OIC in this section was an internal company history document and not any material that has been distributed to providers, or potential or enrolled Medicare beneficiaries. AHP is solely operating as a Health Care Service Contractor within the State of Washington, however as AHP now operates in several other states which recognize the term "HMO" as a general reference term for the model of health plan operated by AHP and such term is generally used in the healthcare industry, AHP has used such term to generally describe its model of healthcare delivery. Additionally, CMS uses the term "HMO" when referring to the model of contract that AHP has with CMS in each of its operating markets. Per CMS guidelines depicted in the Medicare Marketing Guidelines regarding contracting statements, CMS requires use of one of the following to explain our contractual relationship with the Federal Government:

- "A/An [insert plan type: HMO, PPO, POS plan, PSO, etc.] with a Medicare contract"

- “An MA organization with a Medicare contract”
- “A Health Plan with a Medicare contract”
- “A Federally Qualified HMO with a Medicare contract”
- “A Federally Qualified Medicare contracting HMO”
- “Medicare approved [insert plan type: HMO, PPO, POS plan, PSO etc.]”
- “A Coordinated Care Plan with an Medicare Advantage contract”

Many of the required model documents created by CMS contain use and description of Medicare Advantage organizations as being HMOs. Therefore, in order to abide by the demands of our Federal contract, we are required to use this term as instructed by CMS.

Clarification regarding comments in Agent Activity

As requested, the plan did provide documents related to agent activity, including rosters, licensing and appointment procedures and various other policies and procedures. AHP requests a more detailed account of the information the state finds to be lacking in this area.

The following is the response to the Instructions provided in the Examination report:

1. The Company is instructed to comply with the provisions of its Articles of Incorporation and Bylaws.

Response: From review of the Market Conduct Examination it appears that the State did not identify documentation that AHP properly re-elected directors, as noted on page 6 of the Exam documentation, citing review of Board meeting resolutions. AHP remains in compliance with its Articles of Incorporation and Bylaws. AHP Bylaws provide that the election of directors is made by the shareholders at the annual meeting of the shareholders to be held on the last Monday each January. As the Washington OIC requested minutes of the AHP Board of Directors meetings only, AHP neglected to provide the State with the appropriate documentation of Shareholder meetings as well. AHP has evidence that AHP has been in compliance with its bylaws with respect to the election and term of the AHP Board of Directors. Such documentation is included with this response as follows:

- Special Meeting of the Sole Shareholder of Arcadian Health Plan, Inc. Held by Unanimous Written Consent – This document was executed on October 4, 2004 and extended the initial term of the directors until the next Shareholders Annual Meeting.
- Annual Meeting of the Sole Shareholder of Arcadian Health Plan, Inc. Held by Written Consent – This document was executed on January 31, 2005, pursuant to the requirements of the bylaws. The directors were re-elected to another annual term.

2. The Company is instructed to refrain from referencing itself as an HMO as it is only licensed to operate as an HCSC in Washington.

Response: AHP will abide by these instructions as they specifically relate to AHP's operation of business in the State of Washington unless required to use the HMO reference by

James T. Odiorne, CPA, JD
June 16, 2006
Page 3

CMS. We believe that when required to use the term HMO by CMS, federal law will pre-empt State requirements as provided by the Medicare Modernization Act.

3. The Company is instructed to report to the OIC any changes in its Bylaws

Response: AHP amended its Bylaws on October 28, 2004 to alter the titles of some of its officers. AHP encloses a copy of such amendment. Any future amendments will be reported to the OIC.

AHP requests that the responses included in this letter as well as referenced documentation above are taken into consideration prior to publication of the State's final Market Conduct Examination results.

Thank you for your consideration. Please do not hesitate to contact me with any questions you may have.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Nancy Freeman', with a long horizontal flourish extending to the right.

Nancy Freeman
President
Arcadian Health Plan, Inc.

Cc: Charro Knight-Lilly
Leslie Krier

**SPECIAL MEETING OF THE SOLE SHAREHOLDER
OF ARCADIAN HEALTH PLAN, INC.
HELD BY WRITTEN CONSENT**

The undersigned, Arcadian Management Services, Inc., a Delaware corporation the "Sole Shareholder"), is the sole shareholder of Arcadian Health Plan, Inc., a Washington corporation (the "Corporation"). Pursuant to Section 23B.07.040 of the Revised Code of Washington, as amended (the "RCW") and Article 2.3.4 of the Corporation's bylaws, the Sole Shareholder hereby consents to the adoption of the recitals and resolutions contained herein by written consent, and any and all actions contemplated thereby, to have the same force and effect as if adopted at a duly noticed and convened meeting of the shareholders held on the effective date hereof. The Sole Shareholder further instructs the Corporation's Secretary to file this written consent with the minutes of the other proceedings of the Corporation's shareholders.

ELECTION OF DIRECTORS

WHEREAS, the current initial members of the Corporation's board of directors (the "Board") are listed on Exhibit A attached hereto and incorporated herein by this reference;

WHEREAS, pursuant to Section 48.06.200 of the RCW, Article VI of the Corporation's articles of incorporation and Article 3.4 of the Corporation's bylaws, the initial term of office for the Board is six (6) months and is due to expire at 11:59 p.m., Pacific Daylight Time, on October 5, 2004;

WHEREAS, pursuant to Article 2.1.1 and Article 3.3 of the Corporation's bylaws, the Corporation's shareholders shall elect the members of the Board (the "Directors") at their annual meeting (the "Annual Shareholders Meeting") held on the last Monday of every January or at a special meeting of the shareholders;

WHEREAS, the Sole Shareholder desires to elect Directors to serve on the Board commencing at the expiration of the term of the current Board and until the qualification and election of their successors at the holding of the next Annual Shareholders Meeting or until the earliest to occur of their death, resignation or removal;

WHEREAS, the Sole Shareholder has reviewed the qualifications and experience of various candidates, including the current Directors of the Corporation's Board as listed on Exhibit A, to serve as Directors on the Corporation's Board until the qualification and election of their successors at the holding of the next Annual Shareholders Meeting or until the earliest to occur of their death, resignation or removal;

WHEREAS, pursuant to its authority under the Corporation's bylaws, the Sole Shareholder deems it advisable and in Corporation's best interests to re-elect the current Directors to serve on the Board until the qualification and election of their successors at the holding of the next Annual Shareholders Meeting or until the earliest to occur of their death, resignation or removal; and

WHEREAS, in view of the foregoing, the undersigned Sole Shareholder votes all of its outstanding shares of the Corporation's capital stock in favor of adopting the following resolutions:

NOW THEREFORE, BE IT RESOLVED, that, pursuant to its authority under Article I, Section 1 of the Corporation's bylaws, the Sole Shareholder re-elects the current Directors, as listed on Exhibit A, to serve on the Corporation's Board until the qualification and election of their successors at the holding of the next Annual Shareholders Meeting or until the earliest to occur of their death, resignation or removal.

RESOLVED FURTHER, the re-elected Directors, shall commence their terms on October 6, 2004, and shall continue in office until the holding of the next Annual Shareholders Meeting and until the qualification and election of their successors or until the earliest to occur of their death, resignation or removal.

RESOLVED FURTHER, that, so long as the terms of the re-elected Directors have not been terminated by their death, resignation, or removal, they shall serve as Directors, irrespective of the holding of the next Annual Shareholders Meeting, and until their successors have been duly qualified and elected.

RESOLVED FURTHER, that all of the re-elected Directors are conferred with such power and authority and subject to such limitations as now or hereafter prescribed for Directors under applicable law, the Corporation's bylaws or duly adopted resolutions of the Corporation's shareholders.

RESOLVED FURTHER, that the Corporation's officers, whether personally or through delegation, are authorized and directed to do, or cause to be done, any and all acts or things, and to make, execute and deliver, or to cause to be made, executed and delivered, any and all documents, agreements, instruments, applications, certificates, governmental or regulatory filings or payments, in the name and on behalf of the Corporation as such officers, in their discretion, may deem necessary, appropriate, or advisable to carry out and effectuate the intent and purposes of the foregoing recitals and resolutions and all transactions contemplated thereby in a manner which is materially consistent with the foregoing recitals and resolutions.

IN WITNESS WHEREOF, the undersigned has executed this Written Consent to be effective as of the 5th day of October, 2004.

**ARCADIAN MANAGEMENT
SERVICES INC.,**
a Delaware corporation

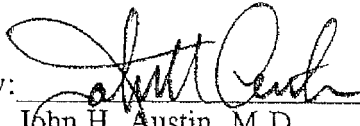
By: 
John H. Austin, M.D.
President & CEO

EXHIBIT A

CURRENT MEMBERS OF THE BOARD OF DIRECTORS OF
ARCADIAN HEALTH PLAN, INC.
STANDING FOR RE-ELECTION

John H. Austin, M.D.

Nancy E. Freeman

Kenneth B. Zimmerman

Cheryl Y. Perkins

Chase S. Milbrandt

**ANNUAL MEETING OF THE SOLE SHAREHOLDER
OF ARCADIAN HEALTH PLAN, INC.
HELD BY WRITTEN CONSENT**

The undersigned, Arcadian Management Services, Inc., a Delaware corporation the "Sole Shareholder"), is the sole shareholder of Arcadian Health Plan, Inc., a Washington corporation (the "Corporation"). Pursuant to Section 23B.07.040 of the Revised Code of Washington, as amended (the "RCW") and Article 2.3.4 of the Corporation's bylaws, the Sole Shareholder hereby consents to the adoption of the recitals and resolutions contained herein by written consent, and any and all actions contemplated thereby, to have the same force and effect as if adopted at a duly noticed and convened meeting of the shareholders held on the effective date hereof. The Sole Shareholder further instructs the Corporation's Secretary to file this written consent with the minutes of the other proceedings of the Corporation's shareholders.

ANNUAL MEETING OF AHP SHAREHOLDERS

WHEREAS, Arcadian Management Services, Inc., is the sole shareholder of Arcadian Health Plan, Inc. (AHP).

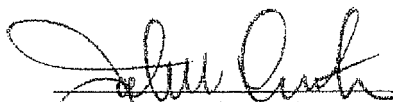
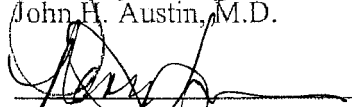
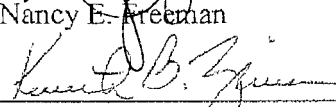
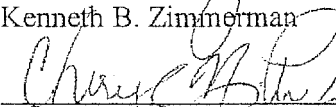
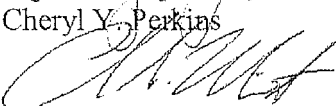
WHEREAS, the bylaws of AHP require an annual meeting of shareholders be held each year on the last Monday of every January, if not a legal holiday, and if a legal holiday, then on the next business day following or at such other date and time as may be determined from time to time by resolution adopted by the shareholders. The purpose of the annual shareholders' meeting shall include the election of directors to the AHP's board of directors (when applicable) in accordance with the provisions of Article 3.3 of the Arcadian Health Plan bylaws., consideration of the annual report reflecting AHP's financial condition at the close of the last fiscal year, and the transaction of such other business as may be brought before the meeting.

WHEREAS, the Sole Shareholder elects to postpone review and consideration of the annual report of AHP until the next meeting of the Sole Shareholder.

WHEREAS, the Sole Shareholder deems it advisable and in AHP's best interests to extend the term of each of the current directors of AHP to another annual term.

RESOLVED, that the Board of Directors extend the term of the current directors of AHP as John H. Austin, M.D., Nancy E. Freeman, Kenneth B. Zimmerman, Cheryl Y. Perkins and Chase S. Milbrandt.

RESOLVED FURTHER, that the directors of AHP, John H. Austin, M.D., Nancy E. Freeman, Kenneth B. Zimmerman, Cheryl Y. Perkins and Chase S. Milbrandt each accept their appointment to the Board of Directors and each evidences such acceptances by his or her signature below:


John H. Austin, M.D.

Nancy E. Freeman

Kenneth B. Zimmerman

Cheryl Y. Perkins

Chase S. Milbrandt

RESOLVED FURTHER, that after the term of office for each member of the AHP board of directors and any subsequent term as approved by the shareholders of AHP electing directors to serve from the end of the initial term to the date of the next annual meeting of shareholders, the term of office for each subsequent director shall be one year, commencing on the date of the annual meeting at which such director is elected.

RESOLVED FURTHER, that if the annual meeting of shareholders is not held as scheduled, each director shall hold office until his successor has been duly qualified and elected or until the earliest to occur of his death, resignation, retirement, removal, or replacement.

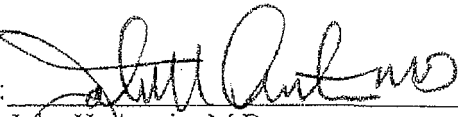
RESOLVED FURTHER, that each member of the AHP board of directors are vested with such power and authority and subject to such limitations as now or hereafter prescribed for directors by the Code, Corporation's bylaws, and duly adopted resolutions of the AHP's shareholders.

RESOLVED FURTHER, that this unanimous written consent may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which, collectively, shall constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned has executed this Written Consent to be effective as of the 31st day of January 2005.

**ARCADIAN MANAGEMENT
SERVICES INC.,**
a Delaware corporation

By: _____

A handwritten signature in black ink, appearing to read "John H. Austin", is written over a horizontal line.

John H. Austin, M.D.
President & CEO

**SPECIAL MEETING OF THE BOARD OF DIRECTORS
OF ARCADIAN HEALTH PLAN, INC.
HELD BY UNANIMOUS WRITTEN CONSENT**

The undersigned, constituting all of the members of the board of directors (the "Board of Directors") of Arcadian Health Plan, Inc., a Washington corporation (the "Corporation"), pursuant to Section 23B.08.210 of the Revised Code of Washington, as amended (the "RCW") and Article 4.10 of the Corporation's bylaws, hereby consent to the adoption of the recitals and resolutions contained herein by unanimous written consent, and any and all actions contemplated thereby, to have the same force and effect as if adopted at a duly noticed and convened meeting of the Board of Directors held on the effective date hereof. The Board of Directors further instructs the Corporation's Secretary to file this unanimous written consent with the minutes of the other proceedings of the Board of Directors.

AMENDMENT TO BYLAWS

WHEREAS, the bylaws of the Corporation approved and adopted by the Board of Directors on April 9, 2004, require amending due to changes in certain operations of Arcadian Health Plan, Inc., and

WHEREAS, Amendment to Bylaws is attached hereto as Exhibit A for approval and adoption by the Board of Directors (the "Amended Bylaws"); and

WHEREAS, the Board of Directors believes that approval and adoption of such Amended Bylaws will be in the best interest of the Corporation:

RESOLVED, the Board of Directors hereby approves and adopts the Amended Bylaws of the Corporation as the official Bylaws of the Corporation until duly amended, restated or repealed.

RESOLVED FURTHER, that the Secretary or any other officer of the Corporation is hereby authorized and directed to execute a certificate reflecting the ratification and adoption of the Bylaws and to insert a certified copy thereof in the minute book of the Corporation.

RESOLVED FURTHER, that the Secretary of the Corporation further shall provide for a certified copy of the Bylaws to be kept at the principal place of business of the Corporation

CHANGE TO OFFICERS' TITLES

WHEREAS, the Board of Directors previously appointed or elected the following individuals to the offices set forth opposite their respective names:

Officer:

Title:

John H. Austin, M.D.

President

Nancy E. Freeman

Chief Operating Officer

& Secretary

Kenneth B. Zimmerman

Chief Financial Officer

WHEREAS, as provided by the Amended Bylaws of the Corporation the Board of Directors desires to modify the titles of the offices of the Corporation and the above-named officers; and

WHEREAS, in view of the foregoing, the Board of Directors deems it advisable and in the Corporation's best interests to adopt the following resolutions:

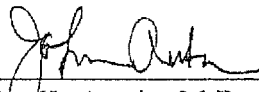
RESOLVED, that the Corporation shall provide for the offices of Chief Executive Officer, President, Secretary and Treasurer and Chief Financial Officer.

RESOLVED FURTHER, that the Board of Directors modifies the title of the office of John H. Austin, M.D. to serve as Chief Executive Officer.

RESOLVED FURTHER, that the Board of Directors modifies the title of the office of Nancy E. Freeman to serve as President and Secretary.

RESOLVED FURTHER, that the Board of Directors modifies the title of the office of Kenneth B. Zimmerman to serve as Treasurer and Chief Financial Officer.

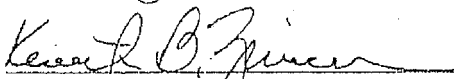
RESOLVED FURTHER, that the initial officers of the Corporation each accept his or her modification of his or her office title and evidence such acceptance by his or her signature below:



John H. Austin, M.D.




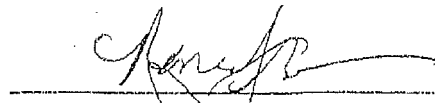
Nancy E. Freeman

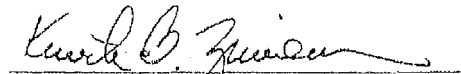


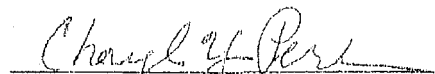
Kenneth B. Zimmerman

The undersigned members of the Board of Directors consent to the foregoing actions on this 28th day of October, 2004.


John H. Austin, M.D.


Nancy E. Freeman


Kenneth B. Zimmerman


Cheryl Y. Perkins


Chase S. Milbrandt

EXHIBIT A
AMENDMENT TO BYLAWS
OF
ARCADIAN HEALTH PLAN, INC.

WHEREAS, the Bylaws of Arcadian Health Plan, Inc., were duly adopted by the Board of Directors by unanimous written consent as of April 9, 2004; and

WHEREAS, the Board of Directors desires amend certain terms and provisions of the Bylaws;

NOW, THEREFORE, the Bylaws are amended as follows:

ARTICLE 1

NAME AND OFFICES

Article 1.2, Offices, is amended to reflect the new address of the Corporation's Principal Office as located at 1330 North Washington Street, Suite 3500, Spokane, WA 99201.

ARTICLE 5

OFFICERS

Article 5.5, President, is deleted in its entirety and replaced as follows:

"5.5. Chief Executive Officer and President.

5.5.1 Chief Executive Officer. The Chief Executive Officer shall preside at all meetings of the shareholders. The president shall supervise the President of the Corporation to manage the business of the Corporation. The Chief Executive Officer shall supervise the execution of all actions and resolutions of the board of directors. The Chief Executive Officer shall execute all documents on behalf of the Corporation, except when the law or the board of directors permits or requires another officer or agent to execute a document on behalf of the Corporation. The Chief Executive Officer will perform other duties that are incidental to the office of Chief Executive Officer of as the board of directors may assign from time to time

5.5.2 President. In the absence of the Chief Executive Officer, the president shall preside at all meetings of the shareholders. The president shall supervise and manage the business of the Corporation. The president may execute all documents on behalf of the Corporation, except when the law or the board of directors permits or requires another officer or agent to execute a document on behalf of the Corporation. The president will perform other duties that are incidental to the office of president of as the board of directors may assign from time to time."

Article 5.7, Chief Financial Officer, is amended to add the following:

"The Chief Financial Officer shall also hold the title of Treasurer of the Corporation."

All other terms and provisions of these Bylaws not modified herein shall remain in full force and effect.

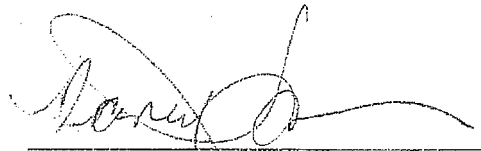
CERTIFICATE OF SECRETARY

I, Nancy E. Freeman, hereby certify that:

I am the duly elected and acting Secretary of Arcadian Health Plan, Inc., a Washington corporation (the "Corporation"); and

The foregoing Amendment to Bylaws, consisting of two (2) pages, are a true and correct copy of the amended bylaws of the Corporation as duly adopted by the board of directors by unanimous written consent as of October 28, 2004 and said amended bylaws are presently in effect.

IN WITNESS WHEREOF, I have executed this Certificate of Secretary on this 28th day of October 2004.

A handwritten signature in dark ink, appearing to read "Nancy E. Freeman", is written over a horizontal line.

Nancy E. Freeman
Secretary